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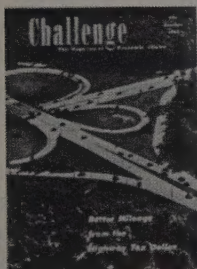
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In This Issue

Challenge Notes	2
<i>some economic observations</i>	
Business Finances A New Autonomy . . .	6
<i>putting profits to work</i>	
Straightaway to Better Roads	11
<i>education can map out the route</i>	
Can RRs Pull The Switch?	16
<i>modernization lends a hand</i>	
Management's "Silent" Partners	20
<i>dividends from the stockholder</i>	
A New Look for France	25
<i>reshaping social ideas to economic aims</i>	
Lament for the "Live" Musician	30
<i>technology has created a new tune</i>	
Sharing the Profits	34
<i>has it proved worth-while?</i>	
What's "Unfair" About Competition? . .	38
<i>not everyone can come out ahead</i>	
The Economist in the 20th Century . . .	42
<i>a book review</i>	
A Personal Note	47
<i>from the editor</i>	



CHALLENGE NOTES

A Democratic Congress convenes; statistics and Mr. Benson; aid and trade south of the border; a taxing problem; socks and a "shrinking" market.

WHEN THE NEW Democratic Congress convenes January 21, there will be the usual pronouncements from the leaders of both parties about "bipartisanship" in foreign policy and "constructive partisanship" in the field of domestic affairs. Actually, most political analysts are convinced that the President's program will remain substantially intact and may even be extended further by a Democratic Congress. Thus, the three most revolutionary economic enactments of the Eighty-fourth Congress—flexible farm price supports, the new Internal Revenue Code and the revised Atomic Energy Law—are not expected to be substantially changed. The Democrats will, of course, try to restore rigid farm price supports, and they may try to raise personal income tax exemptions from \$600 to \$700, but observers feel that they are not sufficiently united on these issues and will not succeed. On the other hand, the President is

expected to receive more support than he did from last year's Republican Congress in such matters as reciprocal trade, health insurance, etc. The big fights, it is generally believed, will be in defense and foreign affairs, and here the conflict is expected to cut across party lines. However, Democratic investigations of alleged "favoritism" in the apportionment of defense and power contracts, as well as alleged "monopoly" in the auto, steel, movie and electric industries, will be conducted largely along party lines.

Statistics Revisited

FIGURES, unless they are properly understood, can often be misleading. It's so easy to relate two separate sets of figures that are, in fact, completely unrelated. Still, we are impressed with recent statistics which show that U. S. housewives have been buying more butter and less margarine ever

since Secretary of Agriculture Ezra Taft Benson cut price supports on dairy products from 90 to 75 percent of parity last April. We recall that, at the time, Secretary Benson was subjected to rather severe criticism from dairy farmers and distributors who thought that his action would flood the market and ruin them. Mr. Benson, on the other hand, insisted that by cutting artificially high props, he would bring down prices and thereby increase butter consumption—and benefit the dairy farmer in the long run. The statistics seem to show that he was right.

“Entertainment Trusts”?

THE DIFFICULTIES facing the legislator and administrator in economic affairs are indeed many. We were reminded of this recently when we learned that Columbia Pictures Corp. has announced a new policy under which it will finance stage plays with screen possibilities. Columbia, which is already active in the music publishing business, will thus become an important force on Broadway as well. Leaving aside the intriguing question of what this will do to the theater (and the movies) we are left with an even more complex problem: How will this new policy affect independent theatrical producers

who are, generally, not as well-heeled as the film companies? Insofar as this move limits competition both on Broadway and in Hollywood in the bidding for “story properties,” is it unfair within the meaning of the Sherman Anti-Trust Act? If followed by other film companies, could this new policy lead to the formation of giant “entertainment trusts” with tentacles extending into the musical world, the theater and possibly even TV? The answer is that it possibly could. But, as in so many other situations involving competition and “fair trade” practices, the maxim of a “clear and present danger” enunciated by the late Justice Holmes in another connection appears to be the best rule to apply. And it does not appear that Columbia’s new policy constitutes a “clear and present danger” of monopoly at this time.

Economic Roadblocks

THE RECENT hemispheric economic conference at Petropolis, Brazil, presented our policymakers with a clear picture of the technical, economic and psychological roadblocks that stand in the way of economic development in most of the so-called underdeveloped areas of the world. Our southern neighbors were virtually unanimous in their emphasis on the need for much more economic

assistance than the United States has up to now been willing to give. Above all, they wanted a huge U. S. Treasury-financed investment loan and an intergovernmental method of stabilizing raw materials prices. Now, there can be no doubt that lack of capital and wildly fluctuating raw materials prices have been two of the main reasons why economic progress in Latin America—and in many other underdeveloped areas as well—has been so disappointingly slow. Nor can there be any doubt that with one-third of our imports coming from and more than one-fifth of our exports going to Latin America, we have a vital economic interest in the area—not to mention our political concern for what goes on south of the border. But are Government handouts and intergovernmental price-fixing schemes the way to solve these problems? We think not. Without for one moment denying the need for expanded capital outlays for industrialization, we feel that this need can best be met by creating economic conditions that will encourage increased *private* investment. Such investment would enable Latin America to base its industrialization on a natural economic foundation (while shaking off its dependence on fluctuating raw materials prices) thereby achieving greater economic stability than could be found in the

admittedly great generosity of the American taxpayer.

Food for Thought

WE WERE AMUSED and a bit disturbed by a recent ruling by North Carolina's Attorney General requiring rail passengers who are served a meal in North Carolina to pay that state's sales tax even though they don't finish their dessert until they are in a state with no such tax—e.g., Virginia. We were amused because the ruling runs counter to some rather sensible American maxims which hold that the proof of the pudding is in the eating and not in the menu—no matter how many state lines have to be crossed in the process. We shudder to think of what effect this ruling will have on the digestive tracts and dispositions of passengers forced to pay a premium on the food they eat just because it was served in the state of North Carolina. But we were disturbed over some of the economic implications of the ruling. In the first place, we wonder what happens to meals ordered in North Carolina and finished in another state which also has a sales tax—such as South Carolina? Which tax is the customer supposed to pay? If both, we predict empty dining cars while the train is passing through North Carolina—and less revenue for that state.

The moral of all this was perhaps best put by Adam Smith more than 175 years ago in *The Wealth of Nations*, when he described a good tax as one which, among other things, the state is certain of collecting.

Markets Stretch

SOMETIMES, it seems, a manufacturer comes up with a product that is too good—or so he thinks. A new wearproof sock which will fit any foot because it is woven from stretchable nylon yarn is a case in point. Manufacturers of the sock complain that as their product becomes more widely established, sales must inevitably shrink. They reason that the greatest assets of their sock—it won't wear out and it will fit any foot-size—are also its greatest weaknesses as far as replacement sales are concerned. This argument does not make much economic sense to us. In the first place, until every potential customer (which, including children and bobby-soxers, comes to more than a hundred million) is wearing at least one pair of the stretchable socks, manufacturers certainly don't have to worry about a shrinking market. Even more ridiculous, however, is the implicit assumption that the only reason why people buy new socks is that their old ones either don't

fit any more or have worn out. A little reflection will show that even if it were possible for us to wear the same dozen pairs of socks all our lives, most of us would not want to. Style, color, texture, as well as the desire to wear something "different" also influence our buying decisions. A superior product never hurt anybody's sales. Poor salesmanship, on the other hand, often has.

Better Mousetraps

A 3-D BOX-CAMERA for \$17.50 . . . an automatic flapjack frying machine which takes the pancake from a packaged mix to the customer's plate all by itself . . . a battery-powered delivery truck that is said to save 75 percent of the fuel and maintenance costs of a gasoline-driven truck . . . a portable radio featuring earphones and speaker that can be used separately or together . . . chicken packaged (stuffed and cleaned) for immediate roasting — unopened package and all . . . a shelfless and freezerless refrigerator whose interior is all storage space . . . a bottle cap which explodes when tapped and blows itself off the bottle . . . a special belt for ladies who have taken up smoking pipes and are at a loss for a place to put them . . . and, finally, a toy robot that can be made to talk and walk from a control box.

The modern corporation is becoming increasingly reliant on its own resources to finance future growth; for it has learned that, by ploughing back profits, it can avoid pitfalls in the money market

BUSINESS FINANCES A NEW AUTONOMY

by George Soule

MORE THAN 150 billion dollars have been spent by American corporations since World War II to expand plants, equipment and working capital. According to recent estimates, new investments by all active corporations in the United States have averaged eighteen billion dollars a year since 1945. These are truly phenomenal figures.

Even more startling, however, is the fact that only about 6 percent of such investments by corporations was raised by selling shares of stock to the public. Approximately 30 percent of the money was borrowed from financial institutions. The remaining 64 percent was supplied by the corporations themselves. In short, 96 billion dollars invested for expansion since 1945 have come either from undistributed profits (from profits that were not distributed in dividends), or from allowances for depreciation, amortization and depletion.

This preponderance of self-

financing is something new in recent economic experience. It was made possible, in the first place, because corporation profits have been high—even after taxes. But even more significant than the high rate of profits during the postwar years has been the relative frugality with which corporate managements have distributed their profits in the form of dividends. In the years between 1945 and 1953, only 42 percent of corporate net income was paid out to shareholders. Contrast this figure with the 82 percent which was paid out in dividends during the boom years between 1926 and 1930. Even during the prewar years from 1936 to 1940, when corporate profits were smaller, 89 percent of net income was converted into dividends.

Will the apparent postwar shift in the methods of raising capital continue? What are some of its broader implications? In order to answer these questions, it is necessary to form an opinion about the

reasons for such a change.

A contributing factor probably will be found in the high rate of the personal income tax. The influential shareholders of corporations are likely to be in the upper tax brackets. If the corporations had paid out more in dividends than they did, much of the money would have been claimed by the Federal Government under the existing income tax laws. Corporate managements, by holding profits and reinvesting them, have made it possible for shareholders to look forward either to capital gains, which are taxed at a lower rate than personal income for all but the lowest brackets, or to even larger dividends at some future time when personal income taxes might be lower.

ANOTHER contributing factor is the modern practice of charging as much to depreciation, amortization and depletion as the law will allow. Since these items are regarded as expenses and may legitimately be deducted from revenue, they have the effect of decreasing profits and thus of decreasing the corporation's tax payments. It often seems preferable to use this money to replace, and, if possible, to expand, productive capacity rather than to pay it to the tax

collector. Such a preference is very likely if profit rates are high while the corporation is subject to the excess profits tax.

THESE TWO factors are better appreciated when viewed in the perspective of the state of the stock market between 1945 and 1953—namely, its relative quiescence. Corporations are more tempted to issue new shares when stocks can be sold easily and at high prices. But since the war the market has not been booming, at least not until recently. In part, this lack of activity may have been due to lingering memories of the 1929 stock market crash and the long depression which followed. The public was bearish about investing in shares that might rise in price and then again might fall sharply. Individuals with larger incomes had heavy income taxes to pay and had less money with which to enter the market. The stock exchanges themselves have been closely regulated. Not only is manipulation more difficult than before the legislation of the 1930s, but the Federal Reserve authorities now can at any time squelch a boom by requiring a 100 percent outlay of cash before any stocks may be acquired. Such strict requirements have cut down the margin of speculation and thus contributed to relatively stable prices on the stock market.

George Soule, economist and writer, is a director-at-large of the National Bureau of Economic Research.

There may be other reasons which we have not examined, but all of them have had the effect of keeping stock prices relatively low for a time after the war while dividend yields were high. And the high yield to each stock purchaser means a high price for the money acquired by the issuing corporation. Why, then, pay out dividends, much of which would be taxed away from the recipients, and then tempt back the money required for investment by costly stock issues? The profits could, instead, be directly invested by the corporation without any loss through "leakage."

Such money as was obtained from outside investors, aside from borrowing from banks and the like, was obtained in the following ratio: about two-thirds of it from the issues of bonds and notes, and about one-third from the issue of stock. The preference for bonds and notes is obvious and so is the financial incentive for this choice. Interest rates were low, while stock yields were high. If additional outside money was needed for expansion, it could be had much cheaper by borrowing at low interest rates than by selling shares.

For much of the period under discussion, it was generally known that interest rates were deliberately being kept low by the Federal Reserve authorities, in part to

encourage "full employment" and in part so that the United States Government would not have to incur the added expense of a high rate of interest on the huge national debt.

IT IS interesting to note that while American corporations as a whole have recently invested more from retained earnings and less from the sale of securities than in the past, the small corporations have always nourished their growth largely by reinvesting profits. This is not only the traditional way to seek success, but it is compulsory for most small businesses because they cannot readily sell their shares of stock. Such stocks are not listed on any market, and there is no other standard practice for bringing together the small firm which needs the capital and the people who have money to invest. For the most part, the manager of the small business must get outside financing by relying on his bank or on the resources of his friends and acquaintances.

The large corporations do not suffer from such handicaps. Yet, a rapidly growing business which seems destined for success is often strongly influenced by a motive which appeals to some of the big fellows as well. To issue shares of stock is to distribute the ownership of the firm. This opens the question of who holds a controlling

interest in the business. Owners who do not wish to lose control or risk having the business taken away from them shy away from issuing stocks. A spectacular instance of such a firm, which has become large and powerful without ever offering a public issue of securities, is the Ford Motor Company. Henry Ford wished, above all else, to keep his company out of the hands of the investment bankers. The company has done remarkably well by expanding its activities solely through the investment of retained income.

IN THE 1890s, and particularly after the turn of the century, great banking houses like J. P. Morgan & Co. played a leading part not only in the formation of holding companies through which successful business concerns merged, but also in the sale of securities of the new mergers. Thereafter the bankers remained in control, as evidenced by the fact that the same names often appeared on both banking and corporate boards of directors. The influence of investment bankers continued on through the 1920s. Their wings were eventually clipped by the market crash and subsequent regulatory legislation, although investment bankers continue to play their traditional role in marketing government and utility securities. Their services

in raising capital seem not at present to be required as much as formerly. As a consequence, one seldom hears nowadays the old complaints about a "money trust" or banker control.

In his recent book entitled *The 20th Century Capitalist Revolution*, A. A. Berle speaks of the assumption made by Adam Smith and propounded by many economists ever since that "the judgment of the market place," where investors make their choices, allots the use of savings in the best public service. "By declining to provide capital," writes Prof. Berle, "it could, in theory, check overexpansion; it could favor enterprises which the country needed most (and to which it was, therefore, presumably prepared to pay larger returns through higher prices and profits); it could penalize or perhaps displace inefficient management, and so forth. . . . But the assumption has lost most of its validity in the mid-twentieth century."

If any market place plays this role today, it is now predominantly not the capital market, but that market in which consumers register their choices for goods and services. Without consumer favor, the profits which may directly be invested could not exist in the first place.

This system, however, does not work automatically for the public

good any more than did the capital market of the past. Managements of the great corporations now bear a heavy responsibility to the whole community whenever they decide when and for what purposes new investments are to be made. A lack of sufficient investment at one time may bring depression and unemployment. An excess at another time may induce inflation. Misplaced investment may be socially wasteful. Most important of all, failure to maintain sustained economic growth could sap the strength of the nation.

WILL THE present trend toward greater reinvestment of profit and less sale of securities continue? A reduction in income tax rates might retard this trend, as might a more active stock market and falling dividend yields. New laws or administrative practices which curb charges for depreciation and the like would probably either check investments, which usually would not be desirable, or send more companies to the market for capital. Perhaps the rapidly expanding mutual funds, which combine resources of many investors, will markedly increase the demand for shares and thereby make them

easier to sell and lower their cost to the issuers. Institutional investors like banks and insurance companies would certainly be attracted to such an opportunity, especially if they receive legal permission to use more of their funds to buy stock.

ON THE other hand, the practice of making new investment out of retained profits rather than by public sale of securities may obtain such a firm hold on management that financial incentives will count for little in determining the sources of capital. In that case, successful corporations will become almost autonomous and will depend less and less on the willingness of the public to buy their shares or on good relations with widely distributed stockholders. They will have to answer only to the consumer—that ubiquitous, unavoidable and powerful figure who in the last analysis can decree life or death for any corporation. The responsibility of corporation managements to make intelligent uses of their resources will, however, scarcely be diminished, since such decisions will affect in some degree every inhabitant of the nation, and perhaps of the world. ■

THE "BIG FOUR" among U.S. exports are industrial machinery, automobiles, grains and cotton. These four groups of articles account for approximately 40 percent of the total value of goods we sell abroad.

Through a "studies-plus-pamphlets" program, the public may be shown how the tax dollars needed to finance better roads can indeed be the bargain of their lives



by F. R. Sproule

Straightaway to Better Roads

TODAY OUR ROADS are a national sorespot on which we constantly tread. From all sections of the nation, from business and industry, from safety and traffic experts, from trucking interests, from the Federal Government and state governors, from the insurance companies adding up staggering lists of road fatalities, and from the plain, disgruntled and dust-covered motorist comes the plea for more adequate roads—nationwide. And while all agree that the nation's roads continue to pose a problem, the problem continues likewise to go unsolved.

Ironically, we are paying heavily for the inadequate roads we

now have. When Thomas H. MacDonald, former Federal Commissioner of Public Roads said, "The public pays for adequate highways whether they have them or not," he was speaking a literal truth which can best be illustrated by comparing road conditions to car operation costs. Each road-caused stop costs about $1\frac{1}{4}$ cents additional in gasoline and wear. The motorist could save \$45.62 a year by the mere elimination of five stops going from and returning home each day. A shift from gravel to paved roads saves him one cent for every mile traveled. Truckers who keep careful records can vouch that it costs less to use the better constructed toll roads, in spite of the fact that truckers pay tolls up to six times what passenger car drivers pay.

Toll roads, turnpikes and thru-

F. R. Sproule has spent most of his career servicing the materials used in road building. He writes this article from firsthand knowledge of the national highway situation.

ways amply demonstrate that good roads do not cost, they pay. Yet these short stretches of improved highways do not alleviate the problem presented by fifty-five million vehicles traveling one and one-half billion miles a day over more than three million miles of roads and streets. These "free" roads constitute the vital network on which our way of life and movement depend. The public generally has been glad to pay tolls for the short-run roads, but it has been unwilling to pay the long-range costs needed to improve the whole system.

A ROADBLOCK in the way of action for improved highways is the general ignorance about how roads and streets can be improved and financed. Attempts to raise state gasoline taxes, vehicle registration and drivers' license fees have been unpopular, partly because of a popular misconception about the way highway-user tax money is spent by the state and Federal governments. These taxes are not merely an excise on what is bought. Today twenty-six states outlaw the employment of such taxes for any purpose other than road and street work. Only about 6 percent of all state highway-user taxes (including license-plate and gasoline taxes) goes for anything but roads. And now for the first time in many years the Fed-

eral Government has decided to return to the states, for a two-year period of highway improvement, an amount roughly equal to that collected through the Federal gasoline tax.

Currently the motorist pays a 2-cent Federal tax per gallon of gasoline, an average $5\frac{1}{2}$ -cent state gasoline tax and an additional license-plate fee. In all, for the use of the public roads, he pays on the average an equivalent of $9\frac{1}{2}$ cents per gallon of gasoline used, or \$57 per year. Raising this sum to \$97 would finance the better roads we need—a small price indeed for cheaper car operation, saving time, safer driving conditions and preserving our most vital avenues of commerce and defense.

Experience has shown that the highway user will buy these better roads if a sound plan for specific improvements is explained to him. Many of the states have already made studies, which need only be brought up to date. A program of *studies plus pamphlets* will be needed in each state to get the plain facts of highway needs and finance to the public. Each purchaser of license plates should be given a well-illustrated pamphlet, written in nontechnical language, which explains what is being done with the tax money and how even more can be done. Once a studies-plus-pamphlets plan gets its mes-

sage over, motorists will demand, and pay for, more adequate roads.

A COMPREHENSIVE study must cover both the present and the long-range view of the traffic situation. It needs to point out exactly what improvements will be made, and when. Furthermore, each study must be clearly applicable to the special requirements and codes of the particular state involved; and it must recommend, when necessary, changes in the law in order to eliminate waste, inefficiency and injustice to any class of highway user. The people must have confidence in the plan, as well as in its execution.

Most urgently needed in this information to the motorist is an explanation of why present tax funds do not and cannot cover adequate highway improvement. Almost anyone can imagine the benefits of better roads, but a big question is why we do not have them now, considering the money we spend.

The fact is that in the past the gas tax has been wholly unrelated to the cost of building and maintaining roads. In the decade between 1940 and 1950, highway costs doubled, but we went on paying the same gasoline tax. Highway-user taxes must be set up so that periodic adjustments are automatically made to keep them in line with highway costs. Other-

wise the revenues collected can become inadequate to meet the building and maintenance programs that are part of long-range plans.

Albert Bradley, executive vice president of General Motors Corp. and chairman of the National Highway Users Conference, put his finger on the real trouble: "Last year's dollar expenditures on highways were a record and double those of the prewar year of 1938, but when these dollars are translated into purchasing power, the picture is quite different. Actually, we were putting out no more *real* dollars for highway work last year than we did sixteen years ago when our car and truck population of twenty-nine million was little more than half of today's fifty-five million."

One way of lightening the load that the highway-user will have to bear to improve our roads according to future standards and dollar purchasing power is to float bonds to be paid off from gasoline tax revenues. In this way, part of the cost of road improvement can be spread over twenty to thirty years. These bonds are retired by revenues much like a turnpike bond is retired by tolls—a pay-as-you-ride system. Thus, the average motorist can be assured that his current annual contribution of \$57 will need to rise to only about \$85 rather than the estimated \$97 needed under a

strictly "pay-as-you-go" plan. However, to finance the increase entirely with bonds would mean that interest payments would result in almost doubled costs, and would place too much reliance on an uncertain future. It is advisable to finance our roads in a way that imposes the least strain on those who pay for them, the people.

A real key to persuading the motorist to "buy" better roads is safety. Very little has been told the average driver about the relationship between road conditions and accidents. The \$57 the average motorist now pays yearly for the public roads is dwarfed by the \$100 he pays for auto insurance, and the \$4 billion per year national toll in lawsuits, property damage, lost paychecks, hospital bills and other related expenses. What is needed specifically for safety is more highway police, better roads and increased driver education. The New Jersey Turnpike is a case in point. In 1953 there were 4.1 deaths per 100 million miles traveled on this road as against a 7.1 national average. Clearly, investment in good roads saves lives, as well as money.

A few states have already adopted a studies-plus-pamphlets plan. In Maryland, for example, the results of a statewide study were outlined effectively in a pamphlet full of graphs and photo-

graphs, as easy to read as the Sunday supplement of your favorite newspaper. Distribution was widespread. Highway engineers, who had been resigned to the conviction that people just won't pay for better roads, were amazed when the full twelve-year program recommended was given overwhelming approval at the polls. Where the states have gone ahead boldly and wisely, there has been no lack of public support.

BUT, on the whole, the states, because of lack of direction and public apathy, have been slow in making progress. There has been a recognized need for the Federal Government to lend a hand to road planning and financing, to coordinate an over-all plan. In January, President Eisenhower will present to Congress his views on how to finance and administer a fifty-billion-dollar highway program. Presently, his five-man advisory committee is considering plans that could help the states themselves to build better roads.

One solution might be to put a studies-plus-pamphlets plan into action on a nationwide scale. This could be done by utilizing money already available from the U. S. Bureau of Public Roads. This organization provides that 1½ percent of the money it returns to the state from the Federal gasoline tax shall be matched by an

equal sum from the state to be used for planning and programming. Therefore, to get the studies going would require mainly extra administration rather than extra expenditure.

Further, two changes in U. S. highway policy could really put the studies-plus-pamphlets plan on its feet. First, the Federal gasoline tax might be maintained at not lower than its present level, with the stipulation that all the money collected be returned to the states for financing the construction of roads. If this were a fixed policy, it would put long-range planning outside the realm of national politics. Secondly, and more important, the states might be made to qualify for this Federal aid by agreeing to make the studies and issue the pamphlets in cooperation with the Bureau of Public Roads and in collaboration with an outside organization of recognized merit and reputation.

The mere allocation of funds to the states is not enough in the face of the need for some uniformity in future planning and building. Since the public is paying both the states and the Federal Government for roads, both directly through taxes and indirectly through costs passed on to consumers of goods hauled by truck, it is not too much to ask that the Federal Government be judicious in its allocation of funds

so that the money may be used to get public sentiment and state action behind a movement for better roads. Then taxation will be less of a chore to the motorist and more a matter of getting what he wants for the money he is spending. Through the studies-plus-pamphlets plan outlined above it may be realized that an increase in taxes to support the cost of better roads will in the end prove a good investment for the highway user. He no longer will have to waste time and gasoline in traffic jams in return for his tax dollar.

THE billion-dollar highway industry is no different from any other big business in that it must adjust to the times. And if it is to stay healthy, it must remain in the good graces of those who put up the money and use the product; and above all it must keep them well informed of what is going on.

Behind the lack of money for adequate roads is the public's lack of faith and understanding. Perhaps this can be surmounted most easily by letting the people in on what it takes to get good roads and then letting them decide whether they want to pay for them and have them, or, as at present, pay for them and not have them. As has been the case in the past, when the people learn the facts, they will want and will finance the better highways they need. ■

Despite the low rate of return they now receive, the railroads must continue to invest in research and development if they are to stay on the track as the nation's foremost common carrier

CAN RR's PULL THE SWITCH

YEARS AGO, when the railroads were practically the only land carrier of freight and passengers, business forecasters predicted that with the coming of the motor car and airplane the railroads would suffer a slump and lose out traffic-wise. Today, with the competition stronger than ever, the railroads still carry more than half of the nation's freight traffic and a proportionately large share of the nation's travelers. Yet the terms "plight," "slide," and "decline" have been varyingly applied to the share-loss of freight and passenger traffic the railways have been experiencing.

How serious are these declines, and what do they mean to the railroad industry? What are the railroads doing to stem the slide?

The plain facts of the matter are that other transportation me-

dia have bitten deeply into the once-exclusive carrier privileges of the railroads. The airplane, the automobile and the bus are competing for passenger traffic; planes, trucks, pipelines and revitalized inland waterways for freight service. In answering the needs of our economic machine for fast, efficient and reliable service, the railroads at times have had to ride the caboose. And, what is worse, the railroads have yielded to other transportation media the kind of business that is most profitable. The small manufacturers of goods and the long-hop travelers have increasingly shied away from the railroads. While the railroads are the principal

carriers of the nation's raw materials, heavy durable goods and military equipment, they are finding it increasingly difficult to draw the kind of traffic they will need to remain a going industry.

What is called for, specifically, is an overhauling of the well-established and maturing railroad system. For it is only through modernization that the railroads can regain their lost traffic.

One thing peculiar to the railroads, however, is that improvement cannot be accomplished quickly. New annual models are not possible because whatever is new must blend in with what is already in use. Operations cannot be suspended for the retooling of plant and machinery that is necessary when models are changed. Yet, today's railways are distinct improvements over the railways of past years. The difference is that the improvement is less dramatic (and less publicized).

The diesel locomotive is an outstanding example of improved railroad equipment. This form of power was first adapted to railroad passenger service a few years before the outbreak of World War II; it came to railroad freight service during the war. In 1946, only 10 percent of freight service

was hauled by this form of power. Today, counting passenger, freight and switching services, diesels account for 90 percent of the motor power used by American railroads.

Less obvious, but as important to railroad modernization, is the growing use of electrical and electronic devices to keep the vast railway network in step with the changing times.

With a system like centralized traffic control (CTC), which the major rails are adopting as standard procedure, trains as far as 300 miles away are routed by remote control from a single central control point. CTC has so increased the efficiency of single-track lines that it has frequently given them the capacity of a second track. By reducing costly delays and by making possible both increased train loads and train speeds, it has produced economies in operations.

The recent adoption of an electronic freight car speed controller by the Union Pacific Railroad will mean new efficiency for freight yards and freight dispatching. This automatic device controls the speed and direction of cars being linked together, thus insuring safety and accuracy. Last year, American railroad companies paid out \$114,000,000 for freight loss and damage, besides losing much valuable time in delays as a result, in the main, of tie-ups and accidents in the hand-

The staff of CHALLENGE presents this sketch of railroad development with the aid of data compiled by the Association of American Railroads.

ling and dispatching of freight cars. With the use of instruments like the electronic coupler, this sort of expenditure can largely be eliminated—just one more step in the process of putting the railroads in a better competitive spot.

Several Eastern railroads, including the New York Central and the New York, New Haven and Hartford, are experimenting with a model of a European train, the Talgo (see inside front cover). American Car and Foundry Industries, which is producing the experimental model of this train, believes that its introduction may be the way to get railroad travelers to come back in their seats. The Talgo is a lightweight, streamlined train with a remarkable capacity for taking curves. Because of this adaptability, it is able to maintain consistently high speeds and cut travel time. Thus far, the Eastern railroads have not gone ahead with their earlier announced plans to use the Talgo on their lines. The Chicago, Rock Island & Pacific Railroad ordered this type of train last month in an advanced model—its first real try-out in the U. S.

As a result of the many improvements which have already been made, the transportation output of the average freight train in the U. S. has gone up from a little more than 7,500 ton-miles per train-hour in 1921 to

more than 23,000 ton-miles in 1953. This increase of more than 200 percent is an indication of how modernization through research can pay off.

Another result of these technical improvements has been better control of costs. Approximately 90 percent of railroad operating costs is in labor, fuel and materials. Despite more than a twofold increase in most transportation costs over the last twenty-five years, the railroads were selling ton-miles in 1953 at an average charge only 52 percent higher than in 1939. The difference between the rise in costs and the rise in selling prices indicates the extent to which improved railroad efficiency has contributed to lower costs for railroads and their users.

WHILE the railroads have been spending money on research and development, they have tried to pass on to consumers a saving in dollars. Most railroads have been offering reduced-fare plans in order to keep up with the buses and airlines. To woo back the freight traffic, they are giving very costly delivery service to small shippers.

The current decline in the railroad's share of the traffic has made it increasingly difficult to get the necessary funds to keep up the development process. The trouble is that when the railroads suffer a modest decline in the volume of traffic they carry, their profits fall

off even more sharply. This can be readily understood by visualizing a railroad engine which can carry five cars, or fifteen. The real operating expense is the engine. The cost-rise for carrying the extra cars is proportionately little. Therefore, any decline in passenger and freight business for the railroads, or even a slight decline in over-all business activity, will result in serious money losses.

Under these circumstances, the railroads will not only find it hard to go on financing equipment and development, but they will also have a discouraging time getting new capital through investment in railroad stock. For while a picture of decline prevails, stockholders will be less likely to condone additional expenditures on new plant and equipment at the expense of declining dividends, and new investors will be less likely to take a chance.

While railroads are weathering a decline in their share of the nation's transportation business, that decline seems to be leveling off. By cutting rates and improving their equipment, the railroads have been able to get back some of their old business.

BUT progress continues in all forms of transportation, and the railroads will have to fight an uphill battle to keep themselves going. As one railroad executive put

it: "I know that we are investing money in new plant and equipment, and I know we are spending considerable sums on research and development. However . . . the funds we are devoting to research and new equipment are pitifully small in comparison to the need for such things. A further alarming situation is the fact that these expenditures must be expected to decrease in the future as the rate of return for the rail industry continues to drop."

What the railroads face, then, is an economic dilemma: With a relatively low rate of return, should they step up investment in equipment, chancing that that type of investment will bring them business? Or should they decide not to invest and settle down to the task of holding on to what they have? If they decide on the latter course of action, how long can the railroads last once their competitors take the open field? A recent economic projection indicates that railroad investment for 1955 will be \$769,000,000—down an estimated 10 percent from 1954 and roughly \$500,000,000 less than the sum for 1953. Whether this indicates pessimism about the railroads' future, or financial caution, only time will tell. But it is quite likely that the public won't abandon the railroads unless the railroads abandon themselves. ■

A new interest is being taken in the small stockholder, who, as management has learned, is as essential in supporting the day-to-day operations of a firm as he is to its financial well-being

MANAGEMENT SOUNDS OUT ITS 'SILENT' PARTNERS

by Sam Shulsky

AS EVERY MOTHER KNOWS, a three-year-old's silence does not mean all is well in the nursery. More often than not, it may indicate that some shenanigans are afoot which will soon erupt with considerable damage to the household—and to mother's nerves.

This is a lesson which has been lost on many corporate managements who for years have gauged their success in handling stockholders by the lack of attendance at annual meetings.

This "tell 'em nothing" and "let sleeping dogs lie" policy may have been good enough in the past when corporate investments were mainly in the hands of a relatively few wealthy people who had the time, or could hire the counsel, to watch over their investments. With the spread of stock ownership to millions of middle-income people, to the point where companies with 100,000 and 250,000 shareowners are common and where American Telegraph & Telephone Co. alone has 1,300,000 holders of its stock,

this attitude has proved dangerous to hibernating managements.

After proxies were counted in several recent corporate battles, it was discovered that stockholder silence and absence from meetings did not signify endorsement of management policies at all, but rather a growing, if latent, dissatisfaction which made their votes fair game for outsiders who "wanted in."

Even though it can be fairly said that managements in recent years have begun to take notice of the shareholder as a person who is a partner in the business, it would be no more than realistic to add that so far only the surface has been scratched. Except in a few instances, management still believes that the owners of a business are only interested in how much they can get out of their investment in the form of dividends. Other than that, stockholders are looked upon as potential or active nuisances who must be furnished only that minimum

of information needed to keep them quiet.

By and large, it still remains a paradox in American corporate thinking that while business avidly woos the support of the supposedly indifferent general public, it too often fends off the interested support of its shareowners.

IF THE truth were to be told, there are still scores of large American corporations which greet a small, new investor with about as much enthusiasm as they would welcome a wet rag to a party. And even after an investor has persisted in putting his money into the business, many companies continue to discourage his active interest. They hide behind their charters and hold annual meetings at inconvenient times and at places practically inaccessible to the majority of their shareowners. At dividend time, they offend the investor by mailing him his check without so much as a single covering word, with less good grace, in fact, than a charitable organization mailing out its allotment to dependents. They send him a complicated report once a year, intelligible only to a Philadelphia lawyer. Their year-round attitude toward him can best be described by the words, "who needs you?"

Yet stockholders are people, and,

Sam Shulsky is assistant financial editor of the New York Journal-American.

properly cultivated, could be helpful people to a corporation.

They are members of the public and have a voice in forming public opinion and a vote in selecting our government—the same government which regulates business.

They are consumers. In fact, their investing proves that they are not only financially solvent, but provident enough to have put their money to work for them.

The very fact that they have chosen Company A for their money certainly indicates a favorable attitude towards it. If the corporation does not get their friendship and their personal patronage, who is at fault?

If the firm's success makes it a likely target for political attack, who is to blame for the absence of stockholder support and for its inability to confront an ambitious, publicity-minded politician with 200,000 informed and voting stockholders? Such support would be at least as useful as a handful of legal counselors defending a hunk of Big Business.

Ninety-nine times out of a hundred it is the fault of the corporation which never even tried to identify itself with its investor-owners in the same spirit that any small businessman would go about winning and even *demanding* the support of the people who had put their money into his business.

If an investor were to put \$500

into a brother-in-law's gasoline station, there isn't the slightest chance that he would be allowed to buy his gas elsewhere, or that he would even think of doing so. If the station ran into zoning difficulties, it would be assumed that the investor would throw his political strength into the conflict.

Yet a large shoe manufacturer's recent report to stockholders not only neglects to solicit the patronage of this friendly "captive" clientele, but in fact fails even to identify its brands so that the stockholder could show his loyalty and spend his money in self-interest if he wanted to. The manufacturer of a nationally distributed antiseptic fails to mention the name of his product all through the annual report; a

clothing chain which spends a fortune on advertising sends its quarterly dividend check to its thousands of shareholders without so much as a word about its own products; a film company which spends millions advertising its Hollywood glamor to the public similarly ignores its owners, even at that opportune moment when the quarterly dividend check could be considerably enhanced by some photos of film-land beauty. These companies are still in the majority. But fortunately there is a trend, though still feeble, in the other direction.

More and more corporate managements now realize that a man who thinks enough of a company to put \$500 or \$5,000 into it is a valuable friend to have. And so,

Who Are Industry's Stockholders?

MORE THAN six and a half million people in the United States own one or more shares of corporate stock. Who are these individuals? How old are they? Are there more men than women?

According to a recent study by the Brookings Institution of 5,000 publicly owned corporations, men have a slight lead in shareownership. While males comprise 49.4 percent of the population, they own 50.2 percent of the shares.

Shareownership increases in publicly owned firms with advancing years until the 60-year-old mark, reflecting increased earning power. Far more men in the 50-59 classification own shares; but among those in the 60 and older group, the proportion of men and women is identical—for many women outlive their husbands and inherit their securities.

Thirty percent of all shareowners in publicly owned corporations are not high school graduates, 29 percent completed high school, 21 percent finished three years or less in college, and 20 percent are college graduates. There are more male shareowners among those who have only a grammar school education. The same holds true at the college level, while women predominate at the secondary school level.

in some cases, he is being greeted by a friendly personal-type letter from the president as soon as the stock is registered in his name. Often a brochure explaining the operations of the company is included. Consolidated Engineering Corp., engaged in the manufacture of highly complicated electronic equipment, thus attempts to identify itself to the stockholder—even though its \$200,000 ElectroData systems are not likely to be found in every investor's household.

General Motors Corp., with nearly half a million owners, rightfully assumes that a man who thinks enough of the company to put his money into it also will think enough of its products to want to drive one. Its annual report, therefore, contains colorful pictures of GM cars; and there are brochures describing new models, as well. American Tobacco Co. and General Foods Corp., dealing in smaller items, hand out their products at stockholders' meetings. General Foods also sends every new shareholder a welcoming letter. A few years ago it surveyed stockholders to find out how many General Foods products they used in their homes.

The Borden Co.'s shareowner-relations program is double-pronged. The company spends considerable effort learning about its shareholders through surveys

on education, age, economic status, etc. Then it turns about and tests customer acceptance of some of its products by serving them at stockholder sessions. Certainly this is the sincerest flattery—frankly asking the owners of the business what they think of a product the company is planning to market. Here again, a large corporation is able to identify itself with shareholders by following exactly the same course any small enterprise would in knitting its owner-family together.

THE American Telephone & Telegraph Co., owned by 1,300,000 persons, has achieved enviable shareholder support by detailing a full-time staff of more than 300 employees to the job of handling stockholders like the real people they are—sending out welcome letters to new investors, quarterly reports, newsletters, conducting open houses and stockholder meetings at local offices around the country. General Mills Inc. likewise has a traveling group of executives who visit shareholders in various sections of the country. A General Mills owner who can't get to Wilmington, Del. for the annual meeting needn't feel he is being shut out of any discussion of his company's affairs.

Bristol-Myers Co., a drug firm, sends out samples. American Home Products Corp. keeps up

almost constant contact with its shareowners by paying them monthly dividend checks, in contrast to the ordinary quarterly rate, and accompanying the checks with messages about various phases of the business.

Celanese Corp. found its stockholder relations program of actual monetary value. A few years ago, a concerted stockholder relations effort helped put its message over to owners so well that they subscribed two hundred million dollars in new capital.

Even more should be done—and without doubt will be done. Complete information on company affairs and products is, of course, the foundation of any sound stockholder-relations program.

But corporate executives seeking even closer rapport might well take a tip from the child psychologists who long ago discovered that the sharing of responsibilities plays an important part in giving a child the feeling that he "belongs." If a stockholder is to become a full-fledged member of the corporate family, he too should be *expected to assume certain responsibilities, and asked to help further the family good.*

The Erie Railroad, for example, makes no bones about telling the stockholder that it is his property and he can help to make it prosper. The last two pages of its annual report are devoted to

"Three Ways You Can Help Your Railroad."

"As an Erie shareholder," the road tells its owners, "you can help you railroad's financial showing by being a 'salesman.' . . . Here are three ways you can help:

"1—If you know anyone who ships freight, suggest that he 'route it Erie' next time.

"2—If any of your acquaintances travel between New York and Chicago, mention Erie's convenient passenger schedules and friendly service.

"3—If you hear of any industry looking for a plant site, sell them on the advantages of locating in an area served by the Erie RR."

And then, to prove that it isn't merely making polite conversation, the report lists Erie freight and passenger agents in no fewer than forty-five cities, coast-to-coast, urging stockholders to get in touch with them.

It may well be that 90 percent of Erie's investors may never be in a position to ship or direct the shipment of so much as 100 pounds of freight over the lines, nor help in locating a new plant near them. But at least they know that management considers them as part of a team.

And why shouldn't they be? Whose company is it if it isn't the shareholders'? Here is a question to ponder. ■

Premier Pierre Mendès-France must overcome French pre-industrial prejudices if his proposed economic reforms are to be adopted

A New Look for France

by Egon Kaskeline

PIERRE MENDES-FRANCE is a very busy man. More than any other of the many political leaders France has had since the end of World War II, he has captured the imagination of people at home and abroad. He appears to be a man of action, and he does what many other French leaders before him did not seem to do—namely, reach a decision and act.

And so hopes are high that Mendès-France is going to do something for his country. Indeed, he and his busy young men have already been able to do quite a bit. They have stopped the bloodshed in Indochina. They have boldly faced up to the problems in North Africa. And most miraculously of all, they have kept France from falling into the abyss of isolation in West European politics.

Egon Kaskeline was formerly Paris correspondent for leading Swiss newspapers. Now a U.S. citizen, he is a regular contributor to the Christian Science Monitor.



Extensive as these achievements might seem, they are only the start of what Mendès-France hopes to accomplish. Now the time has come, and the French Premier has already telegraphed his next move, to tackle the greatest challenge the Mendès-France government will have to face: the grand project of overhauling the French economy.

Obviously, this cannot be a simple task, for there is no national consensus as to what the new economic look in France should be. However, Mendès-France has made the decision to give it a try. If his proposed economic reforms get an affirmative vote, French industry is in for its most profound jolt since

the Industrial Revolution. In fact, many informed observers believe that the reforms will mean France has finally accepted the full implications of the Industrial Revolution.

In its broadest context, all that Mendès-France is trying to do is to base the French economy on the principles of mass production and mass consumption, pursued in an atmosphere of a relatively free-enterprise economy — high output and low prices under the stimulus of competition.

This is a principle that the French have never fully accepted. Rather, the French economy is still largely dominated by economic institutions which encourage low output, high prices and a minimum of competition.

The results, it is generally agreed, have been disastrous for France. Here is a country which, next to Great Britain, received the largest slice of the Marshall Plan pie but which has, nevertheless, trailed behind all other European countries in its economic progress since the war. Today, France's industrial production is only 7 percent higher than in the prewar peak year of 1929.

This government of Pierre Mendès-France is not the first in France's postwar history to attempt to do something about the stagnating economic climate. The

so-called Monnet Plan, named after the French economist Jean Monnet who was Minister of Finance at the time the Plan was first put into operation, accomplished wonders with certain large industries. French coal production today exceeds the best prewar years; the modernized Lorraine steel mills are among the largest and best-equipped in Europe; and the reorganized French railroads rank among the fastest in the world.

But the technical advances and the reorganizational implications of the Monnet Plan were directed at the basic heavy industries of France and have consequently proved beneficial to Big Business. The principal obstacles in the way of general economic growth — monopolistic trade associations, anti-competitive tariffs and subsidies, low output per worker and high profits per unit, etc.—have not been overcome. And until they are, no program of reform can possibly clear the economic atmosphere of France.

UNFORTUNATELY, such obstacles cannot be just legislated away, for they spring from basic attitudes that are deeply rooted in the French character and the French culture. American business and technical methods, with the emphasis on teamwork, standardization and large-scale produc-

tion, run counter to the French emphasis on individual labor, secured income and personalized craftsmanship. The French mentality has never completely adjusted itself to the ways of mass production and the Machine Age.

"Up to the present time," Mendès-France said in a recent speech, "we have made a haphazard choice among our resources. In our beautiful country where life seems easy, we turn to the opportunities that could be immediately exploited. We have now to get rid of the illusion that any sort of improvement can be expected through inertia, routine, the refusal to take risks and the preservation of acquired positions."

These illusions to which Mendès-France referred are primarily responsible for the low level of French productivity. Productivity is less a technical achievement than a state of mind. If the American worker turns out three or four times as many goods as his French counterpart, it is partly because the latter is not interested in increasing production which, he believes, will only benefit his employer and which may even cause him, the worker, to lose his job. And, as things now stand, there is a lot to be said for this point of view. In the United States, the worker is regarded more or less as an associate who has a legitimate interest in the

status of the enterprise and who must enjoy a high income to buy the mass-produced goods of industry. The French worker is a wage earner who must work for a living—and very often a badly exploited worker at that.

The French businessman, for his part, also fears an increase in production which, he believes, will soon exceed the needs of the market, cause a drastic fall in prices and eventually reduce his profits. Here again, there is a lot to be said for this point of view, given the present structure of the French economy. The market for many products is artificially limited and a manufacturer often *does* stand to lose by increasing his production. As a result of this implied desire to maintain an economy of scarcity, many French plants are simply not geared to turn out products on a large scale. Their machinery is obsolete and badly installed, labor is not used efficiently and budgetary control of various factory departments is inadequate.

THESE basic attitudes toward production are perhaps best reflected in France's distribution system, which has been described as an ingenious device designed to make mass consumption *as difficult as possible*. In the United States, the consumer is king, and production and distribution must

which may be more progressive than the others. The role of French business can be defined as well, depending on government policy in various industrial sectors.

The worldwide boom in gold prices is a great incentive for the French to expand their gold mine and gold lease from their existing places and the value of the franc has to come accordingly. Hence, French in the French capital market will be able to raise a considerable amount of funds for economic growth as long as the structure of French's production and their industrial expansion continues to make expansion profitable.

Former Minister France, who has been called the great leader of French business in terms of an entering battle and economic analysis, proposes to change all this. He has now set for the French economy tasks to persuade the French businessmen and workers to adopt the American industrial philosophy of saving profits and income on large production, large-scale sales and low unit prices. Minister France wants to end the sheltered existence of French industries. He wants to do away with large tariffs and government subsidies. Under the impetus of real competition, he is convinced, French business will be forced to step up production in order to remain alive. As a consequence, he believes prices

will fall and new markets for French products will open up here at home and abroad.

In contrast to the Minister Plan, Minister France's economic program is geared to the needs of France's small and medium-sized businesses. Minister France realizes that a massive re-orientation of French industry and private would cause a great deal of hardship and probably would be unworkable in a nation of small enterprises. He has, therefore, set up an Industrial Reconversion Fund which will seek to encourage marginal enterprises for the sake of merging, of reorganizing to more suitable production or of going out of business altogether. The period of reconstruction will be gradual, but he believes it will eventually be complete.

Whether Minister France's intended new line for the country's economy can succeed will in large measure depend on political and technological factors over which the French has little control. One thing is certain, however, they offer a reform of the French economy which, if fully implemented, would be revolutionary. In the process, moreover, it will have to change a good deal of the French way of life.

Pierre Mendès-France is certainly not alone here. It remains to be seen if any other Frenchmen will follow him. ■

*A painful period of adjustment to a technological era
has hit the rank and file of professional musicians*

Lament for The 'Live' Musician

MUSIC MAY HAVE CHARMS to soothe the savage breast, but these days its charms are hardly sufficient to fill the musician's pocketbook.

The hard fact is that "canned music" is displacing the "live" musician. To survive professionally, the man who hopes to make a living with his musical talents must at least be outstanding in his field. But the market for the "live" musician has been narrowed so much that even artistic mastery does not assure success. A man must be a lucky musician as well. In short, there are more good musicians than jobs in the music profession.

To the man who has devoted many years of study to develop his talents, the fact that he cannot

make a living is a catastrophic realization. But to the millions of listeners (consumers) who now enjoy the best music at a reasonable price and in the comfort of their own homes, the sacrifice of the individual musician to advanced technology is unimportant.

When the sound track on motion picture film was introduced, 90 percent of the 20,000 musicians employed in the orchestra pits of America's movie houses found themselves jobless. It became clear that the structure of the musician's profession was being shaken at its very roots. Since that development of twenty years ago, hundreds of thousands of new jobs have been created out of opportunities opened up by radio, motion pictures, phonograph records



and, most recently, television. But these are new jobs. For the man who wants to make a living out of his music, the number of jobs has become scarcer.

These developments have created a rather personal problem—one of no special significance to anyone but the “live” musician. The problem is not one of whether music today is better or worse than it was twenty years ago. The question of quality is a relative one. The number of people who listen to music today is unquestionably larger than it was before, and no one can deny the place of technology in the development of mass audiences. We cannot even say that the displacement of the “live” musician has decreased the number of total jobs in the labor market, for with every musician who has lost a job, perhaps as many as twenty new jobs have been created by technology in fields related to music. Therefore, the only problem to be considered is the one of determining the place of the “live” musician in a changing world of changing demands.

While the demand for “live” listening has continued to decline sharply, the music that goes round-and-round on records boasts

The staff of CHALLENGE prepared this article with an awareness that the price of progress is accommodation to change—sometimes a painful process for the individual, but always necessary for a growing civilization.

a 100-million-dollar business at the manufacturing level and a 200-million-dollar gross business at the retail level. Whether the “live” musician could have marketed his art to such an extent if there were no phonograph records is beside the point. The practical observation is that the unemployed musician realizes very little, if anything, from the 300-million-dollar business in records. The musician’s major mechanical enemy is the jukebox which almost single-handedly has been responsible for the extinction of small bands. The half-million music boxes account for 15 to 20 percent of all phonograph record sales, consume some fifty million records annually and collect 250 million dollars per year in nickels, dimes and quarters. The “live” musician derives no direct income from such proceeds.

The American Federation of Musicians (affiliated with the A.F. of L.) presently has on its rolls 249,000 members, of which only 74,000 are working on a full-time basis. The vast number of unemployed members are musicians who cannot find spots in the popular music field. Gone are the post-World War I days with their million-dollar ballrooms and the dance-band craze which paid a musical organization as much as \$5,000 per week.

But the employment situation is just as tight for those profession-

als who specialize in "serious" music. In fact, whenever the AFM issues one of its periodic calls for Federal and local subsidies, such appeals are usually on behalf of the minority, the "serious," musicians of the union. Apparently, it is considered to be rather bold to suggest that dance bands and "pop" orchestras deserve a subsidized support as well. AFM has considerable outside support among people who wish to encourage a dynamic and expanding cultural life through a proposed Federal Department of Fine Arts. And it is generally agreed that if there is to be such a Federal department, the Government should step in and make good the 25-million-dollar deficit under which our symphonic orchestras are currently operating. "We badly need a subsidy, because in all history art has never existed without one," says maestro Dimitri Mitropoulos.

In the meantime, while the problem of unemployed musicians begs to be resolved either through the natural course of the market or by subsidy, the AFM continues to fight every technological encroachment. Union president James C. Petrillo hopes to increase employment by raising the union minimum on the number of musicians to be employed by any band or orchestra. But the overall effect of such a policy is not substantial. Outlets for larger

bands are slim because their costs are high. One record company laments that "we started using eight men on the bandstand, and now we're using twenty-six." Obviously, there are not enough record companies to absorb the 175,000 professional musicians currently unemployed.

Petrillo's temporary solution to the plight of the musician is the Music Performance Fund, which is designed to create employment and "contribute to the public knowledge and appreciation of music." The Fund gets a cut out of every one of the approximately 200 million discs sold yearly. This brings in 1.5 million dollars annually and is used to support public and charitable concerts, while providing part-time employment for the "live" musician.

"Canned" music (as the phonograph record and other mechanical reproduction devices were christened by John Philip Sousa) is not totally responsible for the downhill slide in demand for "live" musicians. While it is true that few bands have survived over the years, music publisher Jack Robbins places part of the responsibility with the dance bands themselves who overplayed, lost the melody and the dancing crowd. It should also be noted that band leaders compete in a business world, and in order to maintain a high demand for their product,

they must master the techniques of retailing, merchandising and promotion just as well as any other businessman who has a product to sell to the public. Some orchestras are learning to utilize musical gimmicks and variety presentations to lure customers. The current revival of Dixieland jazz and the new mambo craze have helped to make a 15 percent gross band business increase over last year.

BUT THE long-range question of what to do with the excess supply of musicians is to be determined by the national attitude toward "the arts." In the last analysis, the musician is a bearer of American culture, and he cannot be totally replaced by technological advancements as was the blacksmith. It is true that if a union were to advance the cause of the village blacksmith, or if demands were issued for a Government subsidy to support the handicraft shoemaker, these would be ludicrous in the face of modern techniques.

There is a stronger argument that the subsidy backers might use—namely, that the recruitment field for musical skills is almost destroyed when a demand becomes so narrow as to eliminate all but the very best talents. According to this line of thinking, giants representing every art form in every historical period have not emerged from barren soil, but

rather were developed from fertile, abundant resources supporting a whole range of artistry from the mediocre to the very best.

Such an argument is worth serious consideration. But it must be considered with the knowledge that more people listen to the best music in every corner of the land than ever before; that the study of music as well as its appreciation, whether popular or "serious," is practically standard procedure in every American family. Is it not likely that from this mass exposure to good music in all its forms, through the media of reproductive devices, those with true natural gifts will be inspired to perfect their art? Does this not make it possible to draw from a far greater pool of potentially great musicians than in former years, when only a fortunate few had an opportunity to experience personal contact with the best?

The practical consideration is not one of whether there are enough jobs to support all of the professional musicians we now have. But rather, it is one of whether we can produce enough good musicians to record their talents permanently.

In the last analysis, the decision as to whether it is culturally profitable to subsidize musicians for whom there is no market is one the public will make in its own good time. ■

Although in special instances profit sharing has proved very successful, as a general formula it still has too many flaws for widespread adoption

Sharing the Profits

by Ralph Crosman

ECONOMIC THINKING during the thirties accepted the belief that conflict between labor and management was an inevitable ingredient of our economic life. Today, it is clear that while employers and employees do not always share the same specific objectives, many aspects of our economic system depend upon a common agreement over general goals.

Those who own and manage the factories and those who work in them do not, and for the health of our economy should not, always agree on how to distribute the profits. But labor, management and stockholders all benefit when the profits increase; thus increased production and sales is to their mutual advantage.

Profit-sharing plans have evolved as one method of emphasizing this unity of interest, and through it of establishing sound employer-employee relations. The 15,000 plans now in operation (there

were 720 just ten years ago) have a similar skeletal structure. But there the similarity ends. There exists an endless variety of approaches to implement each particular plan, depending upon the needs of a specific company.

A profit-sharing plan is not a pension plan, although it sometimes is related to a pension program. It is not a stock purchase plan, but stocks may be purchased through it. It is not a guaranteed annual wage, and yet profits may boost the wage fund. Profit sharing is a plan under which employees, in addition to their regular wages, share a percentage of their company's profits—the amount shared fluctuating with the amount of profits earned.

Each plan is tailor-made to fit individual requirements. Daisy Manufacturing Co., manufacturers of Daisy Air Rifles, for example, feels that a janitor should receive as much from the pool as an executive. Lincoln Electric

Products, Inc. prefers to reward each individual in proportion to his personal contribution to the profits of the company.

Many firms distribute the profits through periodic extra payments in cash, thus providing tangible evidence of sharing profits. Other organizations defer payments and place the employees' share in a profit-sharing retirement trust fund. In this case, the employee pays no income tax on the funds until he leaves his job, at which time his personal income is likely to be lower. And the increase in value of the securities held by the fund may well exceed the tax he eventually has to pay. Lately the trend has been toward a combination of the two methods.

Advocates of profit sharing maintain that it is good, sound business practice. They claim that it is a productive investment in the latent, largely untapped abilities in human beings. When an employee becomes a full-fledged partner in an enterprise, he is encouraged to cooperate with his partners in labor, capital and management to do all he can to increase profits.

Excessive coffee breaks and frequent trips to the water cooler

Ralph Crosman, a resident of Rocky Hill, Conn., has done extensive research and writing in the field of industrial relations.

often disappear when it is his own profits the employee is drinking up. With the introduction of profit sharing, one company has been able to eliminate inspection completely. At each stage in the production process the employees have satisfactorily assumed full responsibility for the quality of the work. For each unacceptable commodity means lower profits and a proportionately lowered share. Two years after installing a generous profit-sharing plan, an envelope manufacturer who had lost \$40,000 in waste paper reported that the waste had been reduced to less than \$5,000.

Industries with the most successful profit-sharing plans notice that employees are eager to learn more about how their business functions. In some profit-sharing companies, collective bargaining becomes mutual planning.

Yet, while profit sharing works well in certain situations, an inordinately large number of plans fail.

One of the most common mistakes has been to regard a profit-sharing plan as a kind of technique—something to be installed, like an automatic machine, and left to operate itself. On the contrary, this is one process which can never be mechanized. It must be operated "by hand," or rather, by two hands—one of labor, the other of management.

The employees must understand that there is no benevolence involved, that they are receiving their share of the profits which they have helped to create—profits that in all likelihood would not have been earned without the added incentive of profit sharing. The emphasis should be placed on partnership and not on the amount of money involved. If the emphasis is on financial return, it will be difficult to retain the employees' loyalty and interest in loss years, at a time when the team spirit of the organization should be aroused.

AN outstandingly successful profit-sharing plan is currently in operation in the American Velvet Co., a textile manufacturing concern in Stonington, Conn. The plan is unique in the extent to which both management and labor assume responsibility for its smoothness of operation.

In the fourteen years since the inception of the plan, gross sales of one million dollars have risen to more than five million; and a net profit of \$103,352 in 1940 has grown to \$1,189,513. From bitter management-labor discord and near financial failure, the company has emerged as a financially sound organization, with cordial employer-employee relations. Those who have observed the transformation are convinced that it is

the result of the profit-sharing plan.

George S. Paul, director of the Labor-Management Institute of the University of Connecticut, who made a thorough on-the-spot study of the American Velvet plan, reported:

"Every man and woman in the plant is concerned about the welfare of the business. The production workers are interested in new products, the sales department and cutting costs. The worker in this plant who doesn't produce his share is in trouble with his fellow employees. The Union (all employees are members of a national CIO Union) complains to the management if it feels that things are not being handled effectively and at low cost. . . . When profits are lagging, it is not only a few key management people who are concerned, but rather every employee is at work to improve the situation."

For example, during each of the eight-hour shift changes, all the machines are kept running. Without an order or a suggestion from management, the employees stay at their looms until the workers from the next shift are actually ready to take over.

Nor is this relationship a fair-weather friendship. Several years ago the velvet market was sated, and large quantities of American Velvet's products were accumulating in warehouses. Aware of the difficult financial position of the

company, the Union offered a loan from its national treasury. But the employees had a better idea. They chose to work a four-day week until sales picked up.

WHAT ARE some of the features of this profit-sharing plan which might account for its success?

Thirty percent of the net profits before taxes is distributed yearly: 20 percent in cash to the employees, and 10 percent to a trust fund. The actual figure has varied from 11 percent to 39 percent of the worker's annual wage.

The profit-sharing plan is embodied in a collective bargaining contract between the company and a local of the Textile Workers Union of America. The harmony which prevails at American Velvet is indicated by the fact that no dispute has ever gone to arbitration.

But despite the successes which proponents of profit sharing point to, large sections of both management and labor have been, and still are, opposed to it.

Some employers believe that such plans give the employee a toehold in management's territory. They maintain that this increased productivity of the employee is at the expense of capital's right to manage its own business in its own way.

If employees receive a share of the profits, will they not soon demand a voice in the management of the concern? Will not employees insist upon the right to audit the books? The American Velvet Co. is family owned, but corporations with publicly owned stock must convince stockholders that sharing profits with the employees is advantageous. Anti-profit sharers argue that it is not just difficult, but it is impossible, to determine a satisfactory distribution of profits if the funds must be reinvested, paid out in dividends and also shared with the employees.

Labor unions often object to profit sharing on the grounds that labor's share of profits should come solely in the form of a fixed wage and should not depend upon the ups and downs of business. They state that while the employee becomes psychologically identified with his employer, actually the major share of the increased profits remains with management.

There are many instances of profit-sharing plans producing better and more work at lowered costs. But unless the deep-rooted objections to it are overcome, profit sharing cannot achieve universal, or even vast, appeal. ■



*"We all like competition, but . . ." too often we look
for protection from it when we find ourselves
among the individuals or groups who are losing out*

WHAT'S 'UNFAIR' ABOUT COMPETITION?

by Charles F. Phillips

TO ASK AN American businessman if he believes in competition is almost like asking for a sock on the nose. *Of course* he believes in competition—and he raises his voice to add emphasis to his answer.

But after he has cooled off a bit . . . you may find he has his own definition of competition. For example, let's walk with him down the street toward the grocery store of which he is the proprietor. Across the way in a window of one of his competitors is a large sign: "Sugar, X cents per pound." You call it to his attention and at once his brow knits. "That's unfair competition," he says. "That so-and-so has cut prices to attract *my* customers."

I wonder if the reaction of our friend the grocer does not illustrate a simple truth which can be expressed in the short, but incomplete, sentence: "We all like competition but . . ."

We all like competition since we know it is essential for our type

of economy and we like the freedoms which our economy gives to each of us—the freedom to enter or withdraw from any specific field or career, freedom to set our own prices, yes, even freedom to undersell somebody else and take business away from him.

But, all too often when a competitor really acts like a competitor and does something which hurts us—cuts a price, sells harder, improves quality—it becomes "unfair competition" and we run to our trade association, our resources or the Government for protection.

Of course, you think I am exaggerating the situation, and to a degree I am; but perhaps less than you think. Let's take a little look around this distribution world of ours.

We might begin by a little historical excursion into the retail field. If we go back to the turn of the present century we find that small country merchants were going through the mail order

scare. To the small country retailer this newer form of retailing was unfair. It did not employ salespeople. It did not involve the operation of a retail store. It could purchase in huge quantities. For these and other reasons the local merchant was undersold and he objected to the result.

Along about the same time the "unfair" competition of the department store was also growing. As a matter of fact, by 1895 the department store had developed to such an extent that a group of retailers meeting in convention, "after an exciting debate," passed a resolution condemning this form of retailing as it would "result in oppression of the public by suppressing competition and causing the consumer in the end to pay higher prices and ultimately create a monopoly." Yet it is probably not being cynical to remark that what these retailers really were opposed to was the fact that the department store was a formidable competitor.

WHAT happened in the late twenties and early thirties in the chain store field is well known. Based on charges that the chains were monopolistic; that they used such

unfair practices as loss leaders; etc.; small retailers spent much time, effort and money in attacking this new method of unfair competition. Customers were urged to curtail their purchases at chains. The Robinson-Patman Act was sponsored, the misnamed Fair Trade laws were encouraged, and in more than twenty states special taxes discriminating against the chains were enacted.

Of course this excursion into retail history belongs to the past, and you may ask: Is anything like this going on at the present time? The answer is "yes"—and in practically every area of business.

Pick up the [retailing] trade paper of today and you will discover that discount houses are a form of "unfair" competition. All over the country they are rapidly springing up on the basis of underselling the so-called established retailer. Discount houses are even pointed to as being unfair to the consumer because, after all, they do not offer him all the services of the established retailer. Incidentally, whether the customer wants those services or not is rarely considered when the argument is advanced.

And what do the established retailers offer as a solution to the discount house? Is it an honest effort on their part to meet this new competitive factor by reducing their own margins and prices

Adapted from a recent address by Charles F. Phillips, president of Bates College, Lewiston, Maine, before the Boston Conference on Distribution, Boston, Mass.

—which, if history proves anything, *must* be the way to meet it in the long run? In a few instances the answer is “yes.” However, the majority of established retailers act as if they think the answer is *more* Fair Trade—despite the fact that it is the wide margins set by Fair Trade which are playing an important role in encouraging the growth of the discount house. Consequently, they clamor for the manufacturers to cut off the flow of merchandise to the price cutter and to enforce his Fair Trade contracts. In brief, they say: Let’s not meet competition; let’s have someone eliminate it for us.

Or, again, talk with the president of one of today’s drug chains. Twenty-five years ago *his* organization was the culprit. At that time *he* was the unfair competitor—the price cutter—but today he finds that the supermarket has added a drug section and is underselling him. Whereas he opposed resale price maintenance laws twenty-five years ago, today he is one of their strong advocates. His own definition of unfair competition has shifted rapidly, depending upon who is being undersold.

BUT WE do not have to limit ourselves to illustrations from what we normally consider the retail field. Did you follow the ten-month strike of Local 15 of the United

Hatters and Millinery Workers International Union against the Hat Corporation of America? The strike started in July of 1953, brought on basically by the Union’s demand that the company sign a contract containing a clause that would prohibit it from opening new plants outside of the Norwalk area and from transferring work now done in Norwalk to any outside plant. What the Union wanted was a limit on competition. It did not want its members to compete with workers in some other area where Hat Corp. might establish a factory.

Then, of course, there is the farmer—the so-called individualist, the man who stands on his own feet, and, as the politician puts it, “is the backbone of the nation.” Here, of course, is someone who believes in competition. Yes he does, but again there comes that but—and the but in his case is a big one, so big that through powerful lobbies he has forced through Congress price support laws which give him protection far in excess of even that provided for the retailer through Fair Trade.

In the foreign trade area we find this same attitude. A Randall Commission was appointed and, last January, it came up with a program which could be described by the phrase “more trade, less aid.” It looked as if we were

going to make progress in minimizing some of our tariff barriers which limit competition and result in lower standards of living both here and abroad. Yet, when a specific program to accomplish these ends was proposed last March, many of those who, at their trade association meetings, are warm advocates of competition, suddenly found that there were certain wage cost differentials which led them to oppose lower tariffs "as posing a grave threat to the domestic economy." The fact that domestic difficulties in specific areas would be far more than offset by benefits in other areas is something with which they were not concerned.

Now, as I conclude, let me be sure that I am not misunderstood as to the point I am trying to make. Please do not think I am saying there is no such thing as unfair competition. When a competitor resorts to false and misleading advertising, engages in misbranding, and makes false and disparaging statements against competitors of his products, he is engag-

ing in practices which all of us would denounce.

What I am saying is this: much of what we daily refer to as unfair competition is really just keen competition. It is the kind of competition that is essential to our type of economic system. If we want to maintain the freedoms which our system gives us—to enter businesses of our choice, to produce the merchandise we please, to set our own prices—then we must accept the competition which is essential to that kind of economy. We must not always look to our trade association or our Government to protect us from the actions of our competitors.

I would make this positive suggestion. Let us spend more time—in our offices, stores, conferences, and trade association meetings—improving our operations and less time trying to curb our competitors. Not only will individual companies be better off, but so will society. If America wants to continue its long-time development toward a rising standard of living, we need to encourage more, not less, competition. ■



Industrial Research Creates Jobs

INDUSTRIAL RESEARCH—a constant process—creates new jobs, as well as useful products. Twenty years ago the plastics industry was in its infancy. Today, 34 companies employ 20,000 workers in the manufacture of plastic materials. Another 4,000 plants employing 60,000 workers process these materials into consumer goods.

BOOKS IN REVIEW

The modern economist should be more than a scientist. His abilities give him talents and responsibilities for leadership in the effort to preserve and improve our free society



Reviewed by Laurence E. Leamer

THE ECONOMIST IN THE TWENTIETH CENTURY (and other lectures in Political Economy). By Lionel Robbins. 225 pp. New York: St. Martin's Press. 1954. \$3.50.

ACCORDING TO Prof. Lionel Robbins, the distinguished British economist, in 1900 there were in Britain six university teachers of economics with a yearly "output" of approximately a dozen trained economists. Currently there are twenty-six chairs in economics and approximately one hundred other collegiate economics teaching positions with a yearly "output" of graduates running into three figures.

The study of economics had similar beginnings in the United States, although quantitatively we have since "outproduced" Great Britain. At present there are from 4,000 to 6,000 teachers of economics in American institutions of higher learning; another 4,000 to 8,000 economists in government service; an additional 600 employed as business economists;

and from 500 to 1,000 in miscellaneous professions. And there are no signs of a production slowdown. The yearly "output" of economists by the 135 American universities "in the business" is now running at about 200 to 400 Ph.D.s and 800 M.A.s.

Thus economics, in the first half of the 20th century, has been the most rapidly growing field among the social sciences. Today, economists outnumber their colleagues in each of the other social sciences (except history).

As with any "mushrooming industry," a pertinent query both for the professional economist and the layman is: "Why? What is the use of such a profession, and how may its followers be most useful?" This is the initial question which Dr. Robbins, in his latest collection of essays, *The Economist in the Twentieth Century*, seeks to answer.

Dr. Robbins is especially well-qualified to interpret the social role of the economist. In 1932, at

the age of thirty-four and three years after having become Professor of Economics at the London School of Economics (a position he still holds), he published *The Nature and Significance of Economic Science*. This volume sought, as he put it, "to make clear what it is that economists discuss and what may legitimately be expected as a result of their discussions."

As Dr. Robbins saw it, the economist asks what society wants (i.e., what are its ends?). His science of economics consists, therefore, of studying our behavior as we seek to allocate our scarce human and material resources to alternative uses in an effort to satisfy fully these wants.

In this way, Dr. Robbins sought to define a "pure science" of economics. The "purity" of his position and the clarity with which he expressed it have made this early volume a near classic for those economists who feel that economics should confine itself exclusively to topics than can be scientifically substantiated.

The Economist in the Twentieth Century is thus of special interest; for in it we see a lifelong proponent of a "pure" science of economics expressing his mature

Laurence E. Leamer is Associate Professor of Economics at Harpur College of the State University of New York at Endicott, New York.

reflections upon the character of a life devoted to the study, teaching and *living* of economics. The economist in the 20th century, Dr. Robbins now believes, should be more than a pure scientist. He should also seek to be an effective teacher of future citizens. He should aspire to be an effective citizen himself.

THE FIRST essay, which gives title to the volume, is a lecture delivered to a student audience on the occasion of the fifty-third anniversary of the founding of the London School of Economics. The remaining eight essays are essentially illustrations in terms of specific economic problems of the social role which he (Lionel Robbins) has set for himself and for other economists and prospective economists. What is this social role?

The primary function of the economist is, of course, to advance knowledge in his special subject and to prepare students to carry on the study of how societies may use their scarce transferable resources most efficiently. Dr. Robbins, therefore, remains true to his earlier views on the need to develop a pure science of economics. But a pure science of economics, he points out, is only of limited (though important) relevance to the plight of the 20th century.

"The great problems of living to-

gether on this planet," he writes, "are not all reducible to problems of command over the services of the factors of production—important though such problems may be." Indeed, one of the evidences of the general sickness of our age, he notes, is our tendency to over-emphasize the economic aspect. Give every man \$10,000 a year and increase production adequately to meet men's expanded wants, thus temporarily "solving" our economic problem, and men would still not live happily ever after.

The science of economics takes ends (i.e., values) as given. It asks us what we want, but it does not—and cannot—tell us what we *should* want. It provides only limited guidance as to the ethical standards which ought to guide social policy. Also, the science of economics cannot tell us whether or not a certain policy is administratively possible or politically expedient.

"Does recognition of the limitations of economics as a body of knowledge imply," Dr. Robbins asks, "that, in this agitated world, we economists are to remain aloof, detached and indifferent, content to point out to bewildered men the inconsistencies of their various actions, but never taking part in the grand debate of what these actions should be?" He answers his own question with a resounding "No!"

It is also the duty of the economist, Dr. Robbins concludes in his opening essay, "to try to see life steadily and to see it whole and to train good citizens who, in their various ways, may do something to preserve and advance those high values of the West, which, in this century, are in such grave danger of decay from within and destruction from without." In other words, an economist should be more than a good scientist and a good teacher of future good scientists. He should also seek to be a good citizen, which includes seeking to be an effective teacher of other citizens.

IT IS HIS knowledge of several of the most elementary platitudes of his subject and the habits of mind which his specialty engenders that enable the economist as a citizen to play a most important social role. As illustrations of such simple truths, Dr. Robbins cites the following: that water is essential, but diamonds are expensive—the basis of marginal analysis; that you cannot have your cake and eat it—the so-called opportunity cost principle; that the money which is paid over the counter is received by somebody on the other side—the essence of the aggregate equations. The economist as a citizen has a continuing social role of reminding other citizens of the frequently

overlooked, though important, consequences which follow from these simple truisms.

IN AN AGE when so many of the "best minds" are at work designing ways to improve our incomes by *restricting* output; in a democracy where so many voters are being won by promises which completely disregard opportunity costs; in a world where so many citizens seem oblivious to the advantages of mutual gain through free exchange—economists obviously have a crucial social role to perform as citizens.

But economists, to prepare themselves for this role, should study more than economic principles and applied economics. Dr. Robbins would prescribe political philosophy, public administration and law. Economists should study history, "which . . . so much enlarges our conception of possibilities." They should study "the masterpieces of imaginative literature, that priceless heritage in which the best experience and best aspirations of the race receive imperishable expression." In other words, the economist, to be a citizen capable of the fullest expression of his unique potentialities, must be liberally educated.

In the later essays in this volume we see Dr. Robbins analyzing contemporary issues as a philosopher, as well as an economist. For

example, he takes issue with Lord Beveridge's conception of full employment (which Dr. Robbins takes to mean a state of affairs in which there are more vacant jobs than unemployed) because it may result in inflation, because it may impair the mobility of labor and because it may cause a nation to have an adverse balance of payments. "I have a final objection to this objective," Dr. Robbins adds, "which, from my point of view at least, is more important than any other: in the last analysis, I believe that it is incompatible with the persistence of the essentials of personal liberty."

LIKEWISE, on other issues, Dr. Robbins demonstrates that the economist in the 20th century, if he is to play his role effectively, is, above all, a political economist. He is reluctant to extend the scope of government over economic affairs any more than is necessary. Thus he agrees with those "classical" economists who believe that it is the function of the state to provide a "framework of law and order and certain services which the mechanism of private enterprise and the market could not be expected to provide."

Dr. Robbins reviews the classical case against protectionism, although he admits many exceptions to his argument. But, though the economic effects of protection-

ism may often be uncertain, there is one thing Dr. Robbins is sure of: that "its indirect political effects, both in lowering the quality of internal politics and in introducing all kinds of frictions into international relations, are deplorable."

Finally, it is interesting to note that a man who is reluctant to see the scope of domestic government broaden should conclude, when he looks to the relations between nations, that "only political integrations, much more ambitious than any which I have dared to assume in these lectures, can give anything like the degree of stability which we associate with the affairs of individual states. But this, of course, is the supreme problem of our age. The political structure of the world is obsolete and we shall continue to flounder along with second-best solutions until we put this right."

One wonders, as he reads the policy prescriptions of an able

economist, whether these opinions are the product of his economics or of his social philosophy. The answer, of course, is both. Dr. Robbins, or any other economist with a policy prescription based on his own view of the good society, is speaking beyond his competence as a "pure" social scientist.

If so, why do we need economists who are also social philosophers? Are not the intuitions of the humblest citizen just as good as those of the ablest economist? Lionel Robbins' answer is "No!"

"Before we can seriously discuss what is obligatory, it is necessary to know what is possible; and although there is no necessary link between the technique of economic analysis and the appraisal of ultimate ends, I think experience shows that those who have been adept in the one have not infrequently also been capable of helpful contributions to the other." ■



Accent on Speed? Not Always

WHILE TODAY the emphasis is on faster and faster travel, it was not always thus—according to a recent report by the Twentieth Century Fund.

When coaches first came into use, they were frowned upon by many people, among whom were makers of swords, belts and pistols, who felt the switch from horseback to vehicular travel would ruin their businesses; clothmakers, who feared the relative cleanliness of coach travel would mean fewer garments being bought; and tavern keepers, who foresaw a decline in beer and ale purchases en route.

a personal note

from the editor

*Spokesman Wimple proposes some
economic resolutions for the New Year*

J. DEERFIELD WIMPLE IS A REALISTIC MAN. He must be, because the people of his county have retained him as their Spokesman for the past thirty-two years. The other day Spokesman Wimple was overheard in a public place discoursing on the subject of New Year's resolutions. He had a sympathetic audience of mellowed individuals—all of them deeply concerned with the seriousness, if not the vagaries, of being resolute during the coming year. It was a friendly gathering.

"My friends," the Spokesman was saying, "may I be permitted a serious note. Thank you. I wish to propose a toast to the coming year. It is my fond hope that throughout 1955 you will be in good health, clear mind and conscience. Let us contemplate, as we toast the New Year, on the wisdom and singleness of purpose with which we must influence the fate of this Republic.

"I do not wish to be argumentative—but let us for one moment be realistic. It is wellknown that I know nothing about foreign policy and that my Presidential aspirations are slight. I would merely accept the office if it were offered. But I am a practical man, and I know what's good for the country—regardless of what the armchair economists say. So, my friends, I offer a toast. Let me reveal to you the economic precepts which shall guide me in my legislative endeavors throughout the New Year of 1955.

"FIRST, YOU ALL KNOW I am a man of the people. I love people. I love my mother, I'm against sin and I'm against drink. I want everybody to be happy, and I believe in the soil.

"That brings me to the farmers of this Republic. Their lot is a peculiarly vulnerable one in our economic system. I don't know why this is so, but I do know they must be protected from ruination. It is up to the people of this country to see to it that if a farmer doesn't get his fair share of the national wealth, then we have to give it to him. If we don't take care of the farmers of this country, they will go bankrupt. And that wouldn't be fair.

"I believe in being fair with everybody. I want every man, woman and child to have a fair chance at making a fair living. But, I say to you, we must always keep the spirit of competition alive in this country. Competition is what made this country great. We have the highest standard of living in the world because of competition. Competition is a form of natural economic selection. It encourages those who can give society what is most desired and eliminates those who make their contributions wastefully. So, I say, let's be fair and keep competition alive.

"**I AM FOR FREE ENTERPRISE.** Freedom is a sacred condition and a state of mind. So I resolve to work for free enterprise during 1955, because free enterprise is good for everyone. But I intend to see to it, so long as there is breath left in my body, that everyone shall have the right to a fair hearing in Washington. This Government belongs to the people, and it must protect the people. The Government cannot afford to turn its back on business conditions which hurt the employees of industries needing help. I say to you that the Government should have in its power the right to step in and help our shipping industry, textile industry, coal industry, and anybody else who is being hurt because of changing conditions. We want to take care of everybody.

"I resolve that I am for high wages. The only way our people can keep on spending is to have high wages and low prices. But don't forget the man who saves his money and invests. The investor also has a right to a decent return on his money. Saving must be encouraged at all times. And one way to do that is to keep taxes low—way low. That government is best which taxes the least, I always say. We need a Government which can get things done, but without high taxes.

"So there you have it. Take care of our farmers, encourage competition, keep wages and profits high, prices and taxes low. Let's have free enterprise and an alert Government which makes sure everybody gets his share of the national wealth. Be against sin, love your mother, keep your powder dry and stay away from liquor. These are my New Year's resolutions. A toast, gentlemen."

Thus spoke Spokesman Wimple. More learned men might well be frustrated by this exercise in truth and contradiction. I have noticed, however, that the end product of detached logic, in action, is very often a practical accommodation to contradictory truths. Prediction for 1955: somehow we shall survive.—H.B.